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Impact of Current Takaful Models in Pakistan and Malaysia A Comparative Study

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Abstract

This paper is presenting basic knowledge of Takaful, its terminologies, history and development of the sector/ Industry. It is also discussing reasons behind the noncompliance model, practice and claims process. It also helps us to understand both countries' current practices of Takaful industries. Pakistan and Malaysia, considering overall operational and marginal aspects of understanding, contribution, risk management, actuarial science products & experience management, claims and the issues of shortage in risk funds and other related matters. This write-up is focused in the first part on the main applications of Takaful business in Malaysia through the Mudarbah model and Hybrid (Mudarbah + Wakalah) Model discussing the overall practices of both models from different angels of the above-mentioned management/ operations. The second part of the paper contains a comprehensive view of the Wakalah Waqf model that is being practised in Pakistan, comparing all matters with the model practised in Malaysia. And finally, an extract of the comparison of all three models is presented, which will help readers, researchers and followers to understand the actual situations of the three models and the comparison between the Takaful business of Pakistan & Malaysia.

Keywords: *Takaful; Waqf; Wakala; Pakistan; Malaysia; contribution; Mudarbah.*

Introduction of Takaful

Literal meanings: Takaful is basically a word of the Arabic language and its verbal nouns of verb form (باب تفاعل) its attributes are to deal with each other or it acts as reciprocity, its original words are ک-ف-ل. Its source is الکفالة which means to take responsibility, sponsorship and to grow up a child. As it is said in the Holy Quran:

Thou wast not with them when they cast lots with arrows, as to which of them should be charged with the care of Mary: Nor wast thou with them when they disputed (the point). (Al-Quran, Al-Imran: 44)

Similarly, word sponsorship is mentioned in Hadith Mubarak Hazrat Muhammad said

Abu Huraira reported, Allah's Messenger (صلى الله عليه وسلم) said: One who looks after orphan whether he is his relative or not, I and he would be together in Paradise. (Sahih Muslim, 2007, Hadith 7469)

Word کفل is used for riding the gear of men. It is a sheet which is tied on both sides of the camel, which is tied on the camel's hump. (Muhammad bin Mukarram, Jamal al-Din, n.d. Harf al-Laam, Fasal al-Kaf, Madah Kifl "کفل")

There is a statement in Qur'an about this meaning:

O you who have faith! Be wary of Allah and have faith in His Apostle. He will grant you a double share of His mercy and a light to walk by, and He will forgive you, and Allah is all-forgiving, all-merciful. (Al-Quran, Al-Hadeed: 28)

(Al-Kafil) الکفیل is used in the meanings of al-Zamin therefore it is said Kafil is called as guarantor hence it is said (کفل بہ)So-and-so accepted security on his behalf. (Zain al-Din al-Raze, 1420 AH, Vol: 1, P.71)

This meaning is supported by following verse of Qur'an

⌜Still⌝ he asked me to give it up to him, overwhelming me with ⌜his⌝ argument." (Al-Quran, Saad: 23)

Similarly, this meaning is also present in Hadith Mubarak.

Prophet (peace and blessings of Allah be upon him) said, "This companion of yours has a debt." Abu Qatada said, 'I am his guarantor.' (Al-Nisa'i, kitab al-Buyou', 2007, bab bil Kifalat bil Dain,)

It is proved by above mentioned Arabic dictionaries verses from the holy Quran and hadiths. These meanings have also been taken into account in modern terms of Takaful. So now the meaning of Takaful is to be a guarantor of each other and to take care of each other. (Dr. Asmatullah, 1431 AH, P. 73)

Technical understanding of Takaful

Takaful is an organized system of mutual assistance whereby a group of individuals cooperate with each other to compensate for a loss or to avoid a potential threat.

Basic aim of Takaful

Man is a humble creature, Allah has blessed him with the ability to think and make decisions for his own betterment. Using this ability, a person plans his future, looks for his wishes and needs, looks for resources and through them, he fulfils his needs.

If human needs are classified, there can be two types of human needs:

Organized or Conventional needs

Those needs which are fixed are certain to occur after a certain period of time. Along with human life, these needs occur on a daily, monthly or yearly basis. For example, a person feels hungry several times a day. Daily Needs Man needs clothes to wear and house to live.

So man rushes to take care of them, makes arrangements for them before their time

comes, collects resources, makes plans and all human beings are seen racing to fulfill these needs.

Unexpected needs

Second type of needs are those whose occurrence is feared in mind of a person. A person has belief, this need will occur to extent of possibility, but it is only to extent of possibility.

How to deal with this fear and risk, how to face its consequences, how to control them, how to compensate for damage caused by them, all these questions are a vast topic of research and study, which is called risk management.

Need for Takaful in modern times

In past, because risks were small, scale of trade was very limited, and means of travel were camels or horses, chances of accidents during journey were less, and sea voyages were not so long. No international trade, so risks of sea travel were not high.

Therefore, Chinese merchants jointly compensated for loss of a merchant on a sea voyage. Then in seventeenth century AD insurance for cargo ships became common.

Similarly, in 1666, a huge fire broke out in London in which more than 13,000 houses, 87 churches, and dozens of government buildings were burnt. This accident made people think of making arrangements to deal with such hazards. (R. L. Carter (Ed.), 2013, P.10). This led to introduction of fire insurance. (www.London-fire.gov.uk/great-fire—of-london.asp).

Now present age is age of peak and perfection of industrial and technological development.

Since insurance is a system with many shari'a defects which we will mention later, it is also certain, insurance has become an indispensable necessity in this era of industrialization and international trade. Therefore, in case of Takaful, importance of its legitimate alternative system increases.

Shariah status of insurance

Concept of making arrangements to compensate for one's loss and entering into an agreement with a party for this and its analogies are present in texts. Condition of validity of insurance is, there is no Shariah defect in it. It is important to know procedure of insurance to know what Shariah defects of insurance are.

Procedure of insurance

Insurance is a contract between customer and insurance company whereby company undertakes to indemnify customer against potential losses and customer indemnifies liability by paying company on a monthly basis.

So, important point here is contract that is being held between company and its customers and based on this contract, a relationship is established between company and its customer and both have rights and obligations with each other.

Interest:

In case of insurance, there are two types of interest, one is because insurance company invests unused money in interest-bearing income, and company earns interest from this money and uses it to compensate the loss of customer.

Second, when the company pays claim, amount may be more or less, amount paid by such customers, so this excess is also interest.

Gharar

In case of insurance, second error is Gharar. Its description is that neither customer nor insurance company knows the

occurrence of loss for which customer is taking an insurance policy.

Gambling

Third drawback is gambling in insurance as one of parties gets other's money if company has to pay a claim, client will get the company's money in excess of his own premium paid and if the company does not pay claim, it will go to company. This is gambling

Origin of present form of Takaful

Current form of Takaful originated in Sudan, first company was established in 1979, Islamic Insurance Company Sudan, after which Islamic insurance and Takaful companies came into being rapidly all over world. Step-by-step process of coming into existence of this system happened like this

In 1976 first economic Islamic conference held in mecca

In 1977, a fatwa was issued by Saudi higher Council on legitimacy of Islamic insurance model

- In 1979 first Islamic insurance company Sudan Islamic insurance company came into existence
- In 1980 Islamic Arab insurance company came into existence which later transferred to Arab Emirates
- In 1981 Dar al-Mal al-Islami was formed to create Islamic banks and Takaful companies in Switzerland
- In 1984 In Malaysia, Takaful Act 184 came into force which created Takaful Company in Malaysia
- In 1985 Takaful Company was formed in Tunis as soon as Saudi Takaful Company was formed
- In 1991 in Bahrain AAOAFI came into being
- In 1992 in Pakistan
- In 1994 in Indonesia PT Syarikat Takaful came into being
- In 1995 in Qatar Qatar Islamic insurance company came into being
- In 1997 in Dubai Dubai Islamic insurance company came into being
- In 1999 in Sirilanka Amana Takaful company came into being
- In 2002 In Malaysia IFSB formed which created global standards and guidelines for Islamic financial institutions
- In 2002 in Lebanon Al-Arman Takaful formed
- In 2005 in Saudi Arabia SAMA regulations proposed on cooperative Insurance
- In 2005 in Bahrain monitory authority rules were created according to which rules for Takaful companies also created
- In 2005 in Pakistan SECP issued Takaful rules 2005
- In 2006 Pak Kuwait Takaful Company was formed
- In 2007 in Germany Hannover company started re Takaful
- In 2008 in Britain Islamic insurance company was formed
- In 2009 in Malaysia IFSB-10 on Takaful governance and IFSB -8 on shariah governance was released
- In 2009 in Switzerland came again in the industry of Re Takaful
- In 2010 in Bahrain AAOAFI issued Islamic insurance standard number 26
- In 2010 in Brunei Takaful Brunei Dar al-Salam Company came into being
- In 2010 in Malaysia IFSB -11 issued on disruption of Takaful
- In 2010 In Germany Munich came again in the industry of Re Takaful

- In 2011 in Kenya Takaful insurance Africa came into existence
- In 2011 in Palestine al Takaful Palestine insurance company was formed
- In 2012 in Pakistan SECP allowed Takaful in insurance company
- In 2013 in Indonesia 43% growth was recorded. (Mohammad Ma'sum Billah, 2001, P. 10)

Common practices of Takaful in Malaysia

In the same way, Takaful started in almost all regions of world, in the same way, Malaysia also started its Takaful system and for this, they created a system by keeping two basic models in front of them, one of them is *Mudarbah* model and other model is Joint model. A detailed discussion on both these models is given below

***Mudarbah* model**

Mudarbah model is a profit sharing agreement in which participants provide capital as a donation and Takaful operator acts as *Mudarbah* and manages Takaful fund of participants using experience.

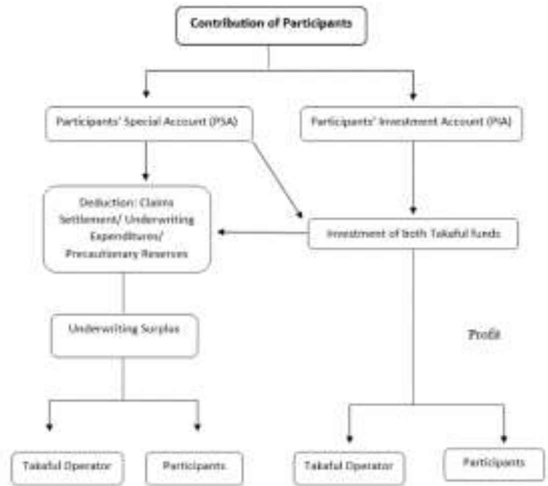
In *Mudarbah* model, Takaful operator's share of underwriting surplus is divided between Takaful operator on basis of best management of fund and Takaful operator's share of underwriting surplus as a reward for, best management. Share is given

History of *Mudarbah* model

When first and largest Takaful Company Syarikat Takaful Malaysia in Malaysia came into being in Malaysia in 1985, *Mudarbah* model has continued in Malaysia. Dollars in which share of Takaful is 630 and share of insurance is 1298 million Brunei dollars, so share of Takaful is 32.96% and share of insurance is 67.30% in terms of total assets.

Flowchart of *Mudarbah* model

Chart N0. 1: *Mudarbah* Model



(www.takaful-malaysia.com)

Above map no.1 is flowchart of family Takaful of *Mudarbah* model which summarizes, contribution received from participants is divided into two parts i.e. PIA and PSA. While the PIA is owned by participants, most of contribution, e.g. 80%, is earmarked for investment account PIA, while rest, e.g. 20%, is earmarked for special risk account PSA funds' money is invested on a Shariah basis and profits resulting from these investments are transferred to both funds for their share of claim payments from PSA, underwriting expenses and precautionary reserves. After the withdrawal, remaining surplus is distributed among the participants and shareholders as per pre-determined terms. Entire amount in PIA along with profit share is fully paid to participants at time of completion of policy.

How *Mudarbah* Model Works

Following map number two shows a practical example of first contribution of family Takaful based on the *Mudarbah* model flow chart. Here it is assumed, company has received Rs. 100,000 Most of this contribution i.e. 80,000 in the investment

account of PIA and a lesser part i.e. 20,000 in special account of participating Takaful PSA has been distributed to cover any loss to participants of both funds have been invested and each fund has earned a profit of 10%, resulting in a profit of 8,000 to PIA and 2,000 to PSA or to add the amount of profit to PIA. Its total value will be 88 thousand rupees while total amount of PSA will be 22 thousand rupees. Claim and underwriting expense rates are pegged at 10% and 5% of first year's contribution respectively. After doing this, there was a surplus of seven thousand in PSA, of which 80 percent is 56 hundred rupees was shared to shareholder of Takaful and 20% i.e. 14 hundred rupees shared with Takaful Operator at end of the year by transferring Takaful head plus i.e. 5600 to PIA, his account value will be 93,600 which will be counted as opening balance of next year.

According to the *Mudarbah* model, distribution of contribution coming to Takaful operator and its calculation process can be understood in a simple and easy example.

Map No. 2: Family Takaful Plan

Total Contribution	100,000		
Received ratio of profit on the Investment	10%		
Specification of contribution in PIA (80%)	80,000	Specification of contribution in PSA (20%)	20,000
Profit (10 %)	8000	Profit (10 %)	2000
Total Funds before surplus	88,000	Total Funds	22,000
		Subtraction	
		Settlement of Claims (10%)	(10,000)
		Expenditures of Underwriting (5 %)	(5000)
		Total surplus	7000
		Share of Takaful Operator (20 %)	1400
		Share of Participant in Takaful (80 %)	5600
Share of Surplus	5,600		
Total Quantity of PIA at the end of Year	936,00		

Initial investment in *Mudarbah* model

In this model, initial investment is provided to Takaful operator on basis of a donation from wealth funder.

Takaful operator who is *Mudarbah* does not make any kind of investment.

Business Administration Expenses

All expenses related to administrative matters are to be borne by Takaful participants according to their share. Remaining amount is profit of Takaful If there is a reduction in expenses related to administrative matters, this reduction is made up by providing a loan to Takaful operator.

Division of Profit

Under this model, after paying all claim and risk fund related expenses, any profit is divided between Takaful participants and Takaful operator according to predetermined terms as the investment of this fund is basis of *Mudarbah*. In addition, Takaful operator also charges a service fee related to general management of risk fund

Loss in business:

If in any year the risk fund is not sufficient to cover all claims and expenses and there is a loss in risk fund, the Takaful operator shall not be liable for the loss, but loss shall be covered by contribution of Takaful participants and profit income if Even after this, if this fund is not sufficient for this compensation, then Takaful operator will provide the loan.

Communal/ Joint model (*Mudarbah* +*Wakala*h)

Communal or Joint model is a combination of *Wakala*h and Madarbah. In which underwriting activities are done on *Wakala* basis while investment related activities are done on *Mudarbah* basis. (MPRA Paper No. 40010, Posted 12 July 2012 09:51 UTC Takaful Models and Global Practices) In which Takaful operator collects contributions pays claims and performs other business-related matters, company charges a fee from each participant in return for meeting all obligations is called *Wakala*h and

it is usually a certain rate of contribution given by participants while on other hand the company invests remaining amount on basis of *Mudarbah* keeping in view the Shariah principles in which company Mudarab and participants are owners of wealth. Rate of distribution of profit resulting from *Mudarbah* to fulfil condition of *Mudarbah* is fixed between parties at time of inception of contract.

History of Joint model

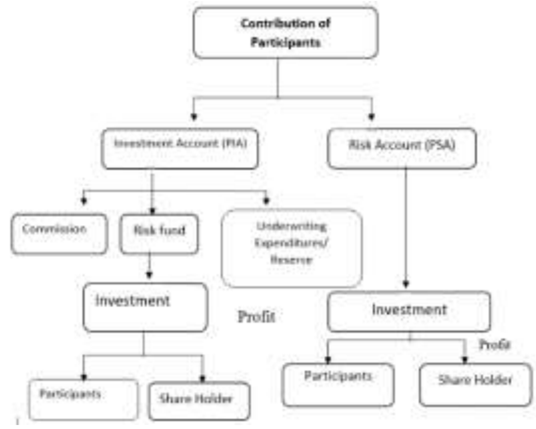
This composite model of Takaful is most prevalent model in Malaysia. Takaful Nasional Berhad and Mayban Takaful Berhad (MTB) are working with Communal or Joint model. This model has been widely adopted by Takaful operators worldwide as it is a combination of *Wakala* and Mudaraba, so it is better to adopt this model to create uniformity in comparative business across the world.

Flowchart of Joint model

Contribution received from participants is divided into two parts, most of which goes to PIA and rest to PSA. While KPIA is owned by participants, both funds are invested according to Shari'ah principles, in which PIA's investment is based on *Mudarbah* while PSA's investment is based on thesis. Profit from investment is distributed among participants and shareholders at a pre-determined rate keeping in mind principles of *Mudarbah* in PIA:

Map No. 3: Joint model for Family Takaful

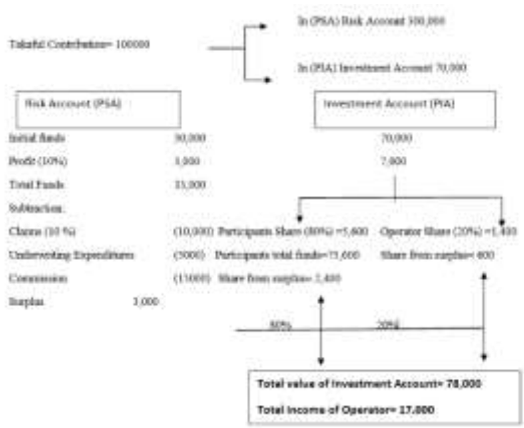
(www.baj.com.s)



How works the Joint Model?

It is clear from the following map no. 4 Takaful Company has adopted a Joint model for management of Takaful fund. *Wakala* for the risk account of participants and *Mudarbah* model has been selected for investment account. As a commission i.e. Rs.15000 when PSA is entitled to additional principal participant but due to good management Takaful operator receives some percentage share as reward In hypothetical example extra is Rs.3000 so out of this 80% i.e. 2400 participants while 20% i.e. 600 operators will get PIA management. After all these distributions, account value of PIA at end of year will be 78 thousand, which will be used as opening balance of next year, while income of Takaful operator is 17 thousand, commission 15000, surplus share 600 and Mudarab share fourteen hundred . So there will be an easy and simple example of process of calculating contribution coming to Takaful operator in terms of compound model. It can be understood as follows.

Map No. 4: Family Takaful Plan



As risk account in compound model is based on advocacy, it includes initial investment, management expenses, distribution of profits and losses in following manner.

Takaful situation prevalent in Pakistan

Due to Shariah questions and implications on *Mudarbah* model of Sur plus sharing method and legal status of this fund, there was a need for a model in which Takaful Company emerged as a welfare organization aimed at welfare of people. And in view of this need, a gathering of Jaid Muftis of country of Pakistan was organized in Jamia Darul Uloom Karachi.

Then a model was suggested by these muftis to establish an account based on *Waqf* and it is called *Waqf Wakala* model.

***Wakala*h *Waqf* model**

Wakala Waqf model is actually a form of compound model, but difference is that in compound model there is no separate legal status of risk pool, can own future contribution when shareholders in *Waqf* model invest some amount of money in the *Waqf*. Takaful Company charges a fixed fee for these services from *Waqf* fund, while other service is investment of money available at that time. Which is operated on basis of *Mudarbah* in which *Waqf* fund is owner of fund because it has a legal status in itself and Takaful operator is Mudarab and profit earned as a result of investment in light of principles of *Mudarbah* is shared between Takaful operator and *Waqf*. Dividends are distributed between funds at a predetermined rate. Rate of profit distribution is determined with permission and approval of Takaful Company's Shariah Advisor.

History of *Wakala*h *Waqf* model

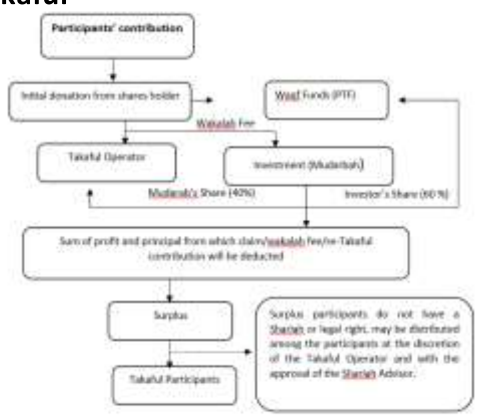
A committee was formed in 2004, which aimed to form a Takaful rolls to establish a system of Takaful in Pakistan, so in 2005, SECP issued Takaful Rules 2005, after which several disciplines came into existence. In 2006, Pakistan's first general Takaful Company Pak Kuwait Takaful Limited came into existence, followed by Salam Takaful Limited in field of General Takaful in 2006 and establishment of Pak Qatar General Takaful Limited came into operation. Pakistan's first family Takaful Company in field of Takaful Life is pak Qatar family Takaful. In 2000, Pakistan's second family Takaful company Dawood Family Takaful Limited came into existence in 2012. SECP allowed insurance companies to open Takaful window. Since then almost every insurance company has its own disciplinary window.

Flow chart of *Wakala*h *Waqf* model (for general Takaful)

According to map no. 5 below, firstly a *Waqf* fund is established by shareholders, then participants are encouraged to make contributions to this pool. First of all, Takaful operator receives a general management and administration fee, then remaining amount is invested on a *Mudarbah* basis, and resulting profit is Takaful. Divided between operator and the *Waqf* pool according to a

predetermined rate, claims are paid from profit on amount in *Waqf* fund, Takaful is paid, kept some money in reserve, and remaining amount is kept. It is called underwriting surplus and it is considered property of pool, however, according to stipulated conditions of *Waqf*, this surplus can be distributed among Takaful participants, but this surplus is not their legal and Shariah right.

Map no. 5: ***Wakala* Waqf Model for general Takaful**



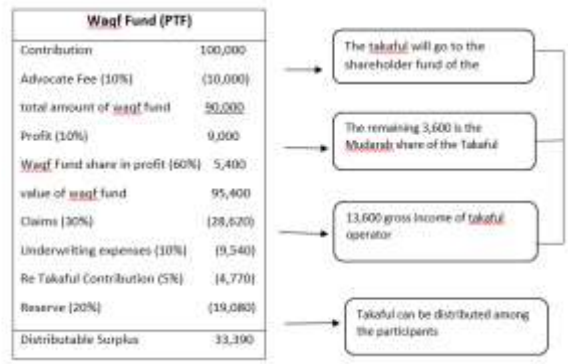
(www.Takāful.com.pk)

How *Wakalah* *Waqf* Model Works:

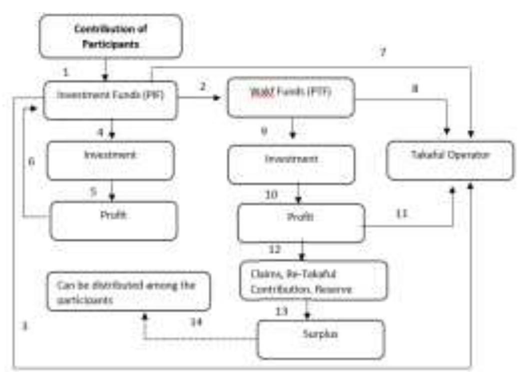
According to the details mentioned in following Map No. 6, an example of General Takaful contribution has been mentioned in terms of flow chart of *Wakala Waqf* model, according to which Takaful operator received 100000 contribution which was transferred to his *Waqf* Fund Out of which Takaful operator received his fixed *Wakala* fee of 10000 and remaining amount i.e. 90000 remained in *Waqf* pool fund which was invested on basis of *Mudarbah* keeping in view Shariah principles for example it received 10% profit i.e. 90000 which was divided between *Waqf* pool and Takaful operator on *Mudarbah* basis as per fixed rate so 60% i.e. 5400 was received by *Waqf* pool and remaining 40% i.e. 3600 Takaful. After, from this total amount i.e. 95400, 42930 is deducted for claims underwriting and re-Takaful contribution, thus an amount of 52570 is left as surplus in *Waqf* fund, out of which reserve If 20% i.e. 19080 is kept as precautionary reserve then distributable surplus is 33390.

According to above model, calculation process of contribution coming to general Takaful to Takaful operator:

Map No. 6: General Takaful Plan



Map No. 7: ***Wakala* Waqf Model for FamilyTakaful**



(https://www.pakqatar.com.pk/)

Details of Participants' Investment Funds (PIF)

1. Contribution received by participants is first converted into units and transferred to investment account of participants.

2. Then some units are cancelled from PIF and put into endowment fund of participants

3. Takaful operator receives allocation charges for allocating units in PIF and performing other administrative tasks

4. The money in the PIF is invested on a fiduciary basis and Takaful participants own pool.

5. Advocacy based investment results in profit

6. Profits are transferred to PIF and generally participants are entitled to Takaful

7. Takaful operator typically charges 1.5% of net worth of PIF in return for investment advocacy services.

Details of participants' Takaful fund (PTF)

1. In exchange for general management and administration of *Waqf* fund, Takaful operator receives a lawyer's fee from PTF, which is usually fixed at a rate.

2. Investment of money in PTF is done on *Mudarbah* basis

3. Investments based on *Mudarbah* result in profit

4. Takaful operator receives a fixed share of this profit as beneficiary

5. Rest of the profit goes to *Waqf* pool after which claims re-Takaful contributions and reserves are kept from overall fund.

6. After deducting above expenses, amount left in *Waqf* fund is called surplus

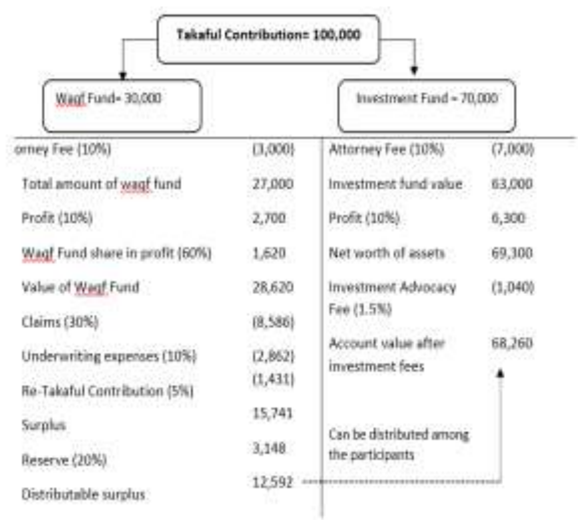
7. Surplus participants have no Shariah and legal rights and are distributed among participants at discretion of Takaful operator with approval of Shariah Advisor.

How *Wakala*h *Waqf* Model Works

According to the details mentioned in following Map No. 8, a practical example of Family Takaful contribution has been mentioned according to flow chart of *Wakala Waqf* model according to which Takaful Company received 100000 from participating Takaful out of which 30000 70000 went to *Waqf* fund PTF and remaining 70000 went to investment fund PIF From amount going to PTI Takaful operator received his 10% *Wakala* fee i.e. 3000 and remaining amount was invested. As a result, a profit of 10% i.e. 2700 was obtained, out of which the *Waqf* fund as principal earned 60% profit i.e. 1620, then a total of 45 in terms of claims underwriting re-Takaful contribution from total value of *Waqf* fund. % deducted which makes a total of 12879. After all these deductions, surplus in endowment fund will be 15740 out of which, after keeping 20% as reserve, Kabul distribution head plus 12592 remains.

According to above model, calculation process of Takaful operator's contribution to Family Takaful:

Map No. 8: Family Takaful Plan



Introduction of *Waqf* fund (PTF)

Waqf fund is very important in above model because it is an individual feature, distinguishes this waqala *Waqf* model from insurance and other Takaful models as mentioned earlier. For establishment of *Waqf* fund, they first dedicate some money from which *Waqf* fund comes into existence, then

same acquaintances choose some people who manage the *Waqf* fund on their behalf. It is special i.e. its benefits are for specific persons who are determined by *Waqf*s. When a loss occurs to any of these individuals, he is helped from this *Waqf* fund according to condition of acquaintances. This can easily understand by following points

- Owners of Takaful company give some money *Waqf* this *Waqf* money will remain in *Waqf* fund and it will never expire
- This fund is on basis of endowment, so the ownership of this fund will be purely Allah. That is, neither owners of company will be owners of this money nor Takaful participants will be owners of this money
- Takaful participants will donate a specified amount to fund to become a member of fund, which is called contribution in Takaful terminology.
- The contribution coming from participants will not be *Waqf*, but it will be property of the *Waqf*. Therefore, it is permissible to spend contribution received from participants for purposes of time, because this money is not *Waqf* but mamluk *Waqf*.
- Purpose of this fund is to support participants of fund in times of need, which requires that endowment fund be large in terms of volume, for which purpose money in this fund is invested.
- Profit that will be obtained as a result of this investment is the owner of the *Waqf* fund.
- Certain conditions will be fixed by waqifin for availing *Waqf* fund
- According to these stipulated conditions, Takaful participants will benefit from this fund on basis, they have donated to *Waqf* fund.
- If a Takaful participant does not fulfil these conditions, he will not get any benefit from this *Waqf* fund
- As status of *Waqf* fund is legally such that it can become owner of assets and funds itself, profit from original money in it is property of *Waqf* fund and it has power to dispose of all money that it owns. Spend as much as you want
- Since Company is currently managing fund as a custodian, Company will receive legal fees from *Waqf* fund as ex-officio.
- If such a situation ever occurs, company has to be closed, after paying all due expenses and liabilities, all contributions in fund at that time will be invested in a good cause, while original fixed amount of this *Waqf* fund will be given to another similar *Waqf*.

***Waqf* deed of *Waqf* fund**

Whenever a Takaful company comes into being in Pakistan under *Wakala Waqf* model, it first prepares a *Waqf* Deed and *Waqf* Rules on basis of which PTF system is operated as contained in *Waqf* Deed below. Important points are being explained

Purpose and objectives of *Waqf* fund (PTF)

- To receive contribution donations from Takaful participants and other charities
- Compensating Takaful participants for losses as per PTF rules
- Giving charity with permission of Shariah Advisor
- Investing PTF money in Shariah Division approved investment vehicles Sukuk Shares Mutual Funds etc.
- And to do any other thing for achieving mentioned purposes and objectives.

Assets of *Waqf* fund

- Capital paid by shareholders for establishment of *Waqf*
- Risk contribution and contributions received from Takaful participants, donations, etc
- Income resulting from investment. Remaining amount other than original *Waqf* amount can be used to meet obligations due in favour of Takaful participants.

Responsibilities of Takaful operator about *Waqf* fund (PTF)

Management and administration of *Waqf* fund

- Takaful operator has authority to create other supplementary funds under fund from time to time with permission of the Shariah advisor and appointed actuary. Will be transferred to supplementary fund.
- Takaful operator shall state rules regarding PTF.
- Investment of *Waqf* Fund. Takaful operator shall act as advocate of PTF.
- Takaful operator will pay benefits to participating Takaful PTF in light of terms and conditions of PTF and PDM.
- All administrative costs related to PTF will be borne by Takaful Operator itself
- At least at end of each accounting year, Takaful operator shall assess assets and liabilities of PTF or each of its subsidiary funds to assess.
- If there is a loss in PTF, Takaful operator will provide interest-free loans to *Waqf* fund to cover loss.
- Takaful operator shall invest fund in PTF in light of principles of Shariah as permitted by Shariah Adviser.
- Under Insurance Ordinance, it is responsibility of Takaful operator to maintain a statutory provident fund for PTF as well.
- To make arrangements for Re-Takaful in accordance with Takaful rules and take permission from Shariah Adviser
- Shariah Adviser function is also responsibility of Takaful operator.
- Additional friends of other classes of business established under PTF may be terminated by Takaful Operator at any time

Takaful Operator's Rights Regarding *Waqf* Fund

- Takaful operator shall have right to collect *Wakala* fee from *Waqf* fund.
- Takaful operator, as trustee of *Waqf* fund, has right to set profit distribution rate.
- Takaful Operator also has right to prescribe separate supplementary rules for each class of business with permission of Shariah Adviser.
- Takaful operator will have first right in relation to credit provided to PDF.
- In addition to rights mentioned above, Takaful Operator shall have all necessary rights that are available to him under Shari'a principles and applicable laws for time being.

Income of *Waqf* Fund

Income of *Waqf* Fund consists of following:

- Risk Contribution by Participants
- Claims from Re Takaful Operators
- Surplus share from re-Takaful
- Profit from investment of all PTF funds
- Loan received from shareholder fund
- Commission received from Re Takaful Operator
- Donations provided by the operator

Expenditure of *Waqf* Fund

- Claims paid
- Contribution paid to Re Takaful Operator
- Takaful Operator's Fees
- Takaful operator's share in profit of PTF as Mudarib
- Distribution of head plus among Takaful partners
- Repayment of loans taken from shareholders
- Amount paid as charity

Dissolution of *Waqf* Fund

If ever such a situation arises, Takaful business has to be terminated, following matters will be carried out

- Value of the PTF on day on which Takaful business is being wound up will be assessed for this purpose any method of assessment of value may be adopted.
- After paying all liabilities of PTM, if there is any surplus, it will be used first to pay off remaining Kard Hasan. Only full surplus will be refunded.
- If operator has created different supplementary funds under PTF, if there is any surplus in one of supplementary funds, then loss of other fund will first be offset by it.
- After assessing value of business, if it appears, PTF is not sufficient to meet obligations of partner, loss shall be covered by operator through deposit provided under Clause No. 21 of Takaful Rules.
- Original *Waqf* amount of PTF will be transferred to another similar PTF and will not be returned to people who contributed amount.

Details of investment fund (PIF)

There are two types of policies under *Wakala Waqf* model as well. One type of policies are those which only provide protection. It has only one fund i.e. PTF, which has been detailed above. They have some kind of investment aspect for Takaful participants. Individual family Takaful policies are called and fund established under them is called Participant Takaful Investment Fund PIF.

- Contribution made by Takaful participant first goes to his investment fund and this contribution first goes to buy units for him in style of a mutual fund.
- Then some units are canceled and moved to PTF in a predetermined manner which has been explained earlier.
- Investment of money in PIF is done on the basis of Vakalta Al-Istashmar
- Takaful operator charges his investment fee on this investment
- Any profit resulting from investment is owned by Takaful participants

Role of Re-Takaful operator in Takaful

According to rules, Takaful operators have to get Takaful for their risk fund as well, because just as a common person gets Takaful to compensate for his loss, similarly risk fund has to get Takaful for loss in case of claim.

A comparative analysis of effects of above mentioned three forms of Takaful

Distribution of participants' contribution

S. No	Takaful Model	Wakala Fee	Risk fund	Investment Fund
1	Mudarbah Model	-	•	•
2	Joint Model (Wakalah + Mudarabah)	•	•	•
3	Wakala Waqf Model	•	•	•

Contribution received by participants is divided into three parts in compound and *Wakala Waqf* model while in *Mudarbah*

model it is divided into risk and investment fund

Re-Takaful contribution and reserves

S. No	Takaful Model	Wakala Fee	Risk fund	Investment Fund
1	Mudarbah Model	-	•	-
2	Joint Model (Wakalah + Mudarabah)	-	•	-
3	Wakala Waqf Model	-	•	-

In all re-Takaful models payment of re-Takaful contribution and allocation of reserves happens from risk fund.

Administrative expenses plus commission

S. No	Takaful Model	Wakala Fee	Risk fund	Investment Fund
1	Mudarbah Model	-	•	-
2	Joint Model (Wakalah + Mudarabah)	•	-	-
3	Wakala Waqf Model	•	-	-

In *Mudarbah* model, all management expenses and commissions are paid from risk fund, while in other two models, both these expenses are paid from *Wakala*h fees.

Distribution of surplus

S. No	Takaful Model	Takaful Participants	Takaful Operator
1	Mudarbah Model	-	•
2	Joint Model (Wakalah + Mudarabah)	•	•
3	Wakala Waqf Model	The surplus is owned by the waqf fund	

In mixed model, surplus is shared between both Takaful participants and Takaful operators, in *Mudarbah* model, the surplus is right of participants only, while in *Wakala Waqf* model, surplus remains in ownership of *Waqf* fund.

Distribution of profit from investment fund

S. No	Takaful Model	Takaful Participants	Takaful Operator
1	Mudarbah Model	•	•
2	Joint Model (Wakalah + Mudarabah)	•	•
3	Wakala Waqf Model	•	-

In *Mudarbah* and compound model, investment fund profit is divided between both Takaful participants and Takaful operators.

Payment of claims

S. No	Takaful Model	Risk fund	Investment Fund
1	Mudarbah Model	•	-
2	Joint Model (Wakalah + Mudarabah)	•	-
3	Wakala Waqf Model	•	-

In all models, claims are paid from risk fund.

Payment of surrender value

S. No	Takaful Model	Risk fund	Investment Fund
1	Mudarbah Model	•	•
2	Joint Model (Wakalah + Mudarabah)	•	•
3	Wakala Waqf Model	-	•

Payment on completion of policy

S. No	Takaful Model	Risk fund	Investment Fund
1	Mudarbah Model	•	•
2	Joint Model (Wakalah + Mudarabah)	•	•
3	Wakala Waqf Model	-	•

Apart from *Wakala Waqf* model, in both models, surrender value and payout in case of policy completion, including profit related to both risk fund and investment fund, will go to Takaful participants.

Provision of interest free credit in case of loss

S. No	Takaful Model	Takaful Participants	Takaful Operator
1	Mudarbah Model	-	•
2	Joint Model (Wakalah + Mudarabah)	-	•
3	Wakala Waqf Model	-	•

In all Takaful models, Takaful operator provides credit to risk fund in case of loss if there is not enough money in risk fund to cover claims.

In above details, some important issues regarding operations and practical implementations and their effects have been reviewed, however, discussion of other aspects such as *Shariah* compliance actuarial systems or investment etc. Is not a part of this article which is covered in another article God willing it will be written.

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